

# TULLY & HOLLAND

INCORPORATED

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## The Demand Index

Direct Marketers | Demand & Circulation

### 2014 Full Year Summary

#### Performance by Industry

#### T&H Conclusion

Tully & Holland has been collecting and reporting circulation and demand data from direct marketers since January 2011. Each week these companies, with sales ranging from \$5 million to \$400 million, confidentially send T&H weekly demand and circulation figures compared to the prior year. Each week the group's aggregated results are reported to the participating companies. This broad measure provides those companies a Demand Index by which they can measure their individual performance.

The following analysis reflects demand and circulation performance for reporting direct marketers during 2014.

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### 2014 Full Year Summary

Median year-over-year 2014 demand grew 1.6% from 2013 on relatively flat circulation for the Demand Index companies. Median 2014 YoY demand growth was up 1.7% through the first half of the year, then was up 1.5% during the second half.

During 2014, 9 of the 15 companies reported YoY demand increases. Three companies reported double-digit YoY demand increases with only 1 reporting a double-digit demand decline.

Circulation increased a meager 0.3% in 2014. Eight of the 15 companies reported YoY circulation increases during 2014. Three companies increased circulation by more than 10% and 2 decreased circulation by more than 10%.

## Performance by Industry

In the following chart, participating Demand Index companies are sub-divided into five categories which best represent their respective industries. Since the sample size of the sub-categories is small, the findings are not statistically significant; however, we believe the sample is directionally indicative of the strengths and weaknesses of the various segments. Results reflect median growth rates for companies in each category.

*Figure 1:*

	Median YTD Change							
	Demand				Circulation			
	2014	2013	2012	2011	2014	2013	2012	2011
Apparel	-5.7%	-7.6%	6.6%	-0.8%	-14.1%	14.0%	16.0%	-14.4%
Home & Accessories	-1.8%	-2.5%	9.0%	3.7%	15.8%	-3.3%	-5.4%	-4.0%
Multi-Category	11.3%	11.2%	2.7%	5.7%	5.6%	6.5%	-7.4%	9.6%
Hobby	1.6%	4.7%	-0.3%	3.1%	5.0%	9.6%	0.0%	11.1%
B2B	5.7%	4.1%	10.3%	6.9%	-2.4%	6.4%	4.0%	-1.3%
<b>Total</b>	<b>1.6%</b>	<b>3.7%</b>	<b>2.7%</b>	<b>4.0%</b>	<b>0.3%</b>	<b>7.0%</b>	<b>-0.4%</b>	<b>1.3%</b>

*Source: T&H Demand Index Analysis*

The **Apparel** category faced another year of YoY demand decline, down 5.7% during 2014, continuing the slide from 2013. Three of the last four years have seen declines in demand mirroring the larger retail landscape of poor apparel performance. Circulation declined 14.1% in 2014, enough to increase response rates and profitability.

Demand in the **Home & Accessories** category was down 1.8% with circulation that increased dramatically. Given the increase in circulation, it is by far one of the weakest performances of any industry group in the past four years. Given the rebounding economy and housing sector, and the increased circulation, the poor 2014 demand performance was unexpected.

The **Multi-Category** group built upon its strong 2013 demand growth with another solid performance, up 11.3%, the second consecutive double digit gain. This category is the only consumer sector to have grown all four years demonstrating the benefits of marketing a broad selection of merchandise to a narrowly defined customer segment.

In the **Hobby** category, 2014 demand growth increased 1.6% on a 5.0% increase in circulation. Since 2011, this category has continued to generate growth at a rate below its circulation increases, consistently putting pressure on profitability. This single-product category is another example of the challenges faced by B2C companies offering narrowly-defined discretionary merchandise.

The **Business-to-Business** category increased demand despite a decline in circulation. This sector has benefited from the recovering economy and a focused strategy. Unlike the Demand Index consumer sector marketers, these B2B marketers appear to benefit from offering a narrowly-defined product category.

## T&H Conclusion

Results from 2014 reflect the weakest YoY median demand growth of the past four years. Given the strengthening economy and jobs market this result was unexpected. To what extent increasing on-line competition, especially in apparel and home furnishings, affects the sales of our (mostly) traditional catalog-based Index is not known. However, while every business in our Index is a multi-channel marketer (catalog and internet), the companies with more advanced electronic marketing have been performing better.

Traditionally catalogers have generated increased volume through increased circulation, as evidenced by the four year trend in this report – since 2011 average yearly demand has increased 3.1% and average circulation has increased 2.1%. In an environment where business variables remain constant, this strategy would be satisfactory. However, in a world where internet-based demand growth has been consistently averaging 16% per year, this approach is concerning. It suggests print-based direct marketers are not keeping up with remote shopping trends and falling behind their pure-play internet competitors.

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*If you would like to participate in the Demand Index and receive monthly reporting, please feel free to contact me.*

**Stuart Rose** | Managing Director  
T 781-239-2900 x17 | M 617-653-6393  
[srose@tullyandholland.com](mailto:srose@tullyandholland.com)

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Investment Banking for Consumer Product Companies  
Food & Beverage, Direct Marketers, Retailers, Manufacturers & Distributors  
[www.tullyandholland.com](http://www.tullyandholland.com)

(781) 239-2900